

Exhibit No. ___ (RCC/CAO-1T)
Docket No. UE-050684
2005 PP&L Rate Case
Witnesses: Ralph C. Cavanagh
Christy A. Omohundro

**BEFORE THE
WASHINGTON UTILITIES & TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

v.

PACIFICORP d/b/a PACIFIC POWER AND
LIGHT COMPANY,

Respondent.

DOCKET NO. UE-050684

**JOINT TESTIMONY IN SUPPORT OF
TRUE-UP MECHANISM**

December 2005

1 **JOINT STATEMENT**

2 PacifiCorp and Natural Resources Defense Council (NRDC) propose as follows, based
3 on conversations with other parties and the testimony filed in this proceeding:

- 4 1. The NRDC proposal for a true-up mechanism (based on the fixed-cost
5 revenue requirement per customer methodology, as described in
6 Mr. Cavanagh's testimony) would be adopted on a pilot basis for three
7 years, with provision for an independent assessment and a report to the
8 Commission at the conclusion of the period.
- 9 2. For purposes of applying the mechanism, the Company would calculate
10 fixed cost revenues per customer based on the Commission's findings
11 regarding its approved revenue requirement in this docket. Within 30 days
12 of the final Commission order, the Company would make a compliance
13 filing which includes the calculation of the fixed cost per customer that will
14 be utilized in the true-up mechanism.
- 15 3. The independent assessment would include a review of the impact (if any) of
16 the Company's wholesale market activities on cost recovery; and would
17 include recommendations on how (if at all) future true-up mechanisms
18 should be adjusted to accommodate wholesale market conditions.

19 **TESTIMONY IN SUPPORT OF JOINT STATEMENT**

20 **Testimony of Ralph C. Cavanagh**

21 **Q. Please state your name, position, business address, and the party for whom**
22 **you are appearing.**

23 A. My name is Ralph Cavanagh. I am appearing on behalf of the Natural
24 Resources Defense Council. My position and business address, along with my
25 educational background and professional experience, were included in my
26 testimony filed on November 3 in this proceeding, Exhibit No. ___ (RCC-1T).

27 **Q. Why do you support the Joint Statement?**

28 A. I know that some parties retain concerns about the mechanism and I expect to
29 see those concerns reflected in their testimony. The proposal gives the

1 Commission a way to test the mechanism in operation over a limited period,
2 with carefully constrained rate impacts and a thorough operation over a limited
3 period, with carefully constrained rate impacts and a thorough independent
4 review of the mechanism's operation.

5 **Q. How does the Joint Statement address the issue of wholesale market**
6 **conditions?**

7 A. As indicated in my testimony, I think this is an important issue, and I made a
8 commitment to discuss it further with the parties. Those discussions reinforced
9 my sense that this is a new and complex issue that would be difficult to resolve in
10 the absence of experience with an actual mechanism. For one thing, on a multi-
11 state system operating in multiple markets, it is far from clear how and to what
12 extent reduced retail sales on one part of the system would translate into partially
13 or wholly offsetting wholesale revenues for the system as a whole. It is also
14 possible that under some conditions adverse wholesale market conditions could
15 increase, rather than reduce, losses to PacifiCorp from reduced retail sales.
16 Finally, if the Commission believes that a true-up mechanism is the right long-
17 term policy for PacifiCorp, it could conclude that over time competitive wholesale
18 markets are likely on average to preclude any appreciable recovery of retail fixed-
19 costs from wholesale sales revenues, so that no adjustment is needed.

20 **Q. How does the Joint Statement address these complexities?**

21 A. The proposal includes a provision for an independent assessment that would
22 review all aspects of the mechanism in operation, including "recommendations
23 on how (if at all) future true-up mechanisms should be adjusted to accommodate

1 wholesale market conditions.” In my judgment, that independent assessment
2 and the operating experience on which it will rest would put the Commission in
3 the best position to reach an informed decision regarding long-term issues
4 surrounding design of a true-up mechanism, including but not limited to the
5 integration of wholesale market conditions.

6 **Testimony of Christy A. Omohundro**

7 **Q. Please state your name, position, business address and the party for whom**
8 **you are appearing.**

9 A. My name is Christy A. Omohundro. I am appearing on behalf of PacifiCorp.
10 My position and business address, along with my educational and professional
11 background, were included in my direct testimony, which was a part of
12 PacifiCorp’s initial filing in this proceeding, Exhibit No. ____ (CAO-1T).

13 **Q. Why do you support the Joint Statement?**

14 A. I agree that Ralph Cavanagh’s decoupling proposal is a good approach to
15 eliminating financial disincentives to investment in cost effective energy
16 efficiency resources, and ensuring that the Company is not at risk for fixed cost
17 recovery if it successfully invests in such resources.

18 **Q. Do you agree with Mr. Cavanagh that there is an issue regarding wholesale**
19 **market conditions?**

20 A. No, not in the context of the Company’s overall proposal. As I mentioned in
21 my rebuttal testimony, the Company believes it is important for the Commission
22 to implement the Power Cost Adjustment Mechanism (PCAM) in conjunction

1 with decoupling. The PCAM would ensure that the vast majority of costs or
2 revenues associated with any wholesale transactions would automatically be
3 passed back to customers, thereby rendering moot the entire wholesale market
4 transactions issue. However, as a part of the agreement with NRDC, the
5 Company is certainly willing to study the issue as part of the independent
6 assessment of the pilot.

7 **CONCLUSION**

8 **Q. Does this conclude the joint testimony?**

9 **A. Yes.**